RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Oct. 21, 1987 **LETTER 976**

Oct. 9 DJIA 2482.21; PTI 2669; A-D Ratio -7.72
Oct. 16 DJIA 2246.68; PTI 2643; A-D Ratio -9.92

THE PICTURE: Question: Russell, what is the Dow Theory saying now?

Answer: If my writing over recent months has been worth anything, subscribers would not have to ask that question. But here goes, anyway. In the last Letter I outlined what would have to occur if a primary bear market was to be signaled under Dow Theory. This is what I said: If the D-J Industrial Average breaks below its September 21 low of 2492.82 confirmed by a break in the Transportation Average below its September 21 low of 1005.80 -- that action will signal a primary bear market.

On October 9 the D-J Industrial Average broke decisively below its September 21 low to close at 2482.21. That action constituted one-half of a bear market signal. On October 15 the D-J Transportation Average confirmed by breaking below its September 21 low of 1005.80. *The joint penetrations mean that the top of the great bull market was seen on August 11 (the point at which the two Averages posted their last joint highs). The action since then has been part of a primary bear market of indeterminate extent and duration.*

Question: The Transports broke below 1005.80 four days after the Industrial break. Is this still a valid bear signal?

Answer: Yes, I would consider a penetration by one Average within a week or so of the other Average's penetration as a valid confirming signal. As a rule, the closer together the penetrations by the Averages, the more valid the signal. The most authoritative signals occur when the two Averages penetrate significant levels simultaneously or within a day or so of each other. Conversely, of course, the longer the elapsed time between confirmations, the less authoritative the signal.

I might also add that increased volume on a bear signal adds to the authority of that signal. Volume on October 15, the day the Transports confirmed on the downside, rose to 263 million, one of the biggest volume days in stock market history.

Question: What would you look for to stave off a bear market? I mean what would have to happen in the economy or in Washington to keep the bull market going?

Answer: Right off the bat, that question underscores a type of thinking that can be very deceptive and very costly to investors. Try to comprehend this concept: *Once the primary trend has turned up or down, no manipulations or machinations can change that direction.* In other words, once the primary trend starts in a new direction, it is going to continue in the new direction until the new direction is exhausted. The primary trend, once in force, is going to run to conclusion and that usually (based on past history) takes at least a year or so -- or longer.

Let me give you an example: We now know that the primary trend of the market turned down on August 11, the day when the two D-J Averages (Industrials and Transports) recorded their last confirmed highs (i.e., that was the day when the two Averages hit their highest points together). Because the primary trend turned down on August 11, it doesn't matter whether the Transports waffle around for a few weeks, it doesn't matter if the A-D ratio suddenly firms, it doesn't matter if low-price stocks spurt, it doesn't matter if President Reagan signs a non-agression pact with Russia, it doesn't matter if Congress suddenly decides to balance the budget, and it doesn't matter if long-term bond rates drop to 5%.

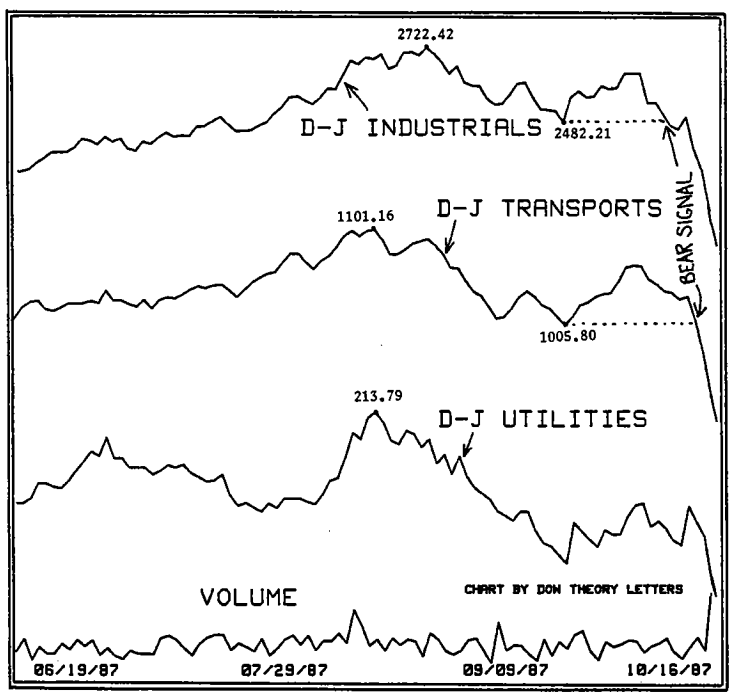
No, once the tide turns down, the market is telling us that the Averages have seen their highs and that all rallies are simply minor or secondary upward movements within the context of a primary bear market.

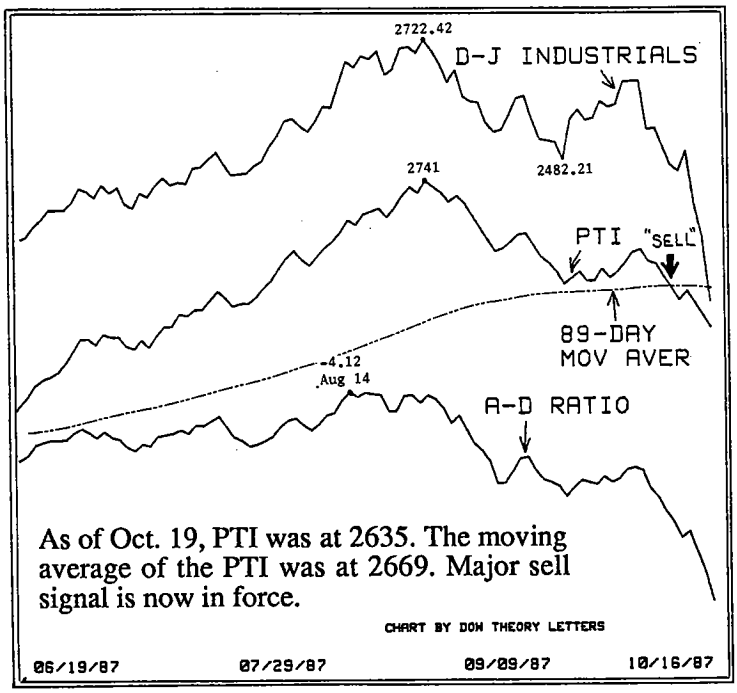
The whole point I'm trying to get across is that once the primary trend turns down (or up) it is fruitless to look for news events or technical items in the hope that the primary trend will be "changed" or somehow "held off." To bring it to the present, the primary trend of the stock market turned bearish in mid-August, and at this point all we can do is accept that fact and arrange our finances accordingly. No political or economic "miracle" is going to alter the primary direction.

Question: The market came down hard from its mid-August highs. Isn't it very oversold now, and if so, couldn't we already have seen the bottom?

Answer: On Wall Street anything is possible (but many things are very improbable). It's important to remember that the market acts differently during a bear market than it does during a bull market. More than half the brokers and advisors working today have never experienced a primary bear market; they are therefore familiar only with bull market action.

During a bull market an oversold condition (i.e., an extreme in bearishness) generally means that a good bottom has materialized. Following the oversold bottom the market can then be expected to rally strongly until it reaches an overbought state.





Not so during a primary bear market. In a bear market an oversold condition may imply that a rally is in the offing, but the rally may simply relieve the oversold situation -- only to be followed by another decline to new lows. In fact, how the market acts after an oversold condition often provides hints as to whether primary bull or bear market conditions prevail.

Question: In a number of 1987 Letters you wrote about the great exponential rise (i.e., parabolic curve) in the Dow. How do you see that formation affecting the market now?

Answer: I wrote that once a parabolic rise forms a final spear-point top and turns down, it is an indication that the upside has been exhausted. Therefore, it is "normal" following the parabolic top for the price action to decline in a violent and relentless fashion (we last saw this in gold following its extraordinary 1980 parabolic peak).

So far, since its August 25 high, the Dow has been declining in much the way that I warned it might. The breakup of a parabolic rise can be very destructive and costly, and so far the recent Dow parabola has been no exception.

Question: Russell, from every quarter I read that business will be good through at least 1988. In fact the Business Council (WSJ, Oct. 12, page 2) now forecasts growth of 2.3% to 3% in the US during 1987 and 1988. Almost no one is predicting a recession in the next six months, and the leading indicators are consistently pointing to better business. In view of that evidence, how could a bear market possibly be starting now?

Answer: Unfortunately, history demonstrates that the "experts" are invariably looking in the wrong direction when a bear market begins. Remember, bear markets seldom if ever begin with a specific news event. *Bear markets start when the Averages have discounted the best that can be seen ahead.*

It is also well to remember that trying to predict the trend of the stock market on the basis of available business data is, at best, a frustrating procedure. It is the market's function always to look AHEAD of the available data. Thus, when some name-economist predicts that the economy will be good until 1989, I write this off as "interesting reading." The market, in its wisdom, knows more about what lies ahead than all the name-economists and business councils in the nation taken together.

Question: Russell, in Letters over the past few months you have stated that you personally sold out of the market? On what basis did you sell out, since you had no Dow Theory bear signal?

Answer: I sold out in 1987 on the same basis that I bought in 1974 and 1982 -- values. I have said before that there is nothing in Dow's Theory that even remotely suggests waiting for a bear signal before selling out. A bear signal is simply a confirmation of what we might already suspect. The true basis of Dow's Theory is VALUES. "To know values," wrote Dow, "is to know the meaning of the market."

Over the past four or five months I have presented study after study showing that the Dow and the major averages were overextended and overvalued. I demonstrated that on the basis of dividend yields, earnings, book value, or in comparing stocks with bonds -- stocks were absurdly overvalued.

Historically we know that informed money always distributes stocks when the average dividend yield on the Dow drops below 3%. And ultimately informed distribution leads to a bear market.

I felt that by stating my personal investment position (i.e., zero stocks) I might influence my subscribers to lighten up on stocks, even though I did not have specific evidence via Dow Theory or my PTI that a bear market had started.

Question: Why did the D-J Transportation Average hold up so well -- at least until October 15?

Answer: Who cares! It is absolutely fruitless to dissect the Averages in an effort to prove one's bullish or bearish thesis. The Dow Theory is based on case histories and past precedent. In fact, all of technical analysis is based on the concept that when "this" happens, the probabilities are that "that" will happen. In the current instance, we have received a Dow Theory confirmation of the existence of a bear market. You can argue about the make-up of the Transports or you can argue that the Industrials are not adjusted for inflation or you can argue that the trucking stocks weakened the Transportation Average. None of those arguments will alter the fact that it's a bear market.

Question: What do you make of the performance of the A-D ratio?

Answer: The A-D ratio tracks the advancing or declining tendencies of the majority of stocks on the NYSE. On October 9 the A-D ratio dropped below its May 20 low (see page 2 chart). On October14 the A-D ratio, continued its devastating decline as it broke below its December 31, 1986 low. This action took the A-D ratio back to its February1986 level, at which point the Dow was in the 1650 (!) area.

I have been writing about the ominous action of the A-D ratio ever since its peak last March. The A-D along with the Utility Average were the early harbingers of the bear market. I wrote about the bearish implications of both until I was blue in the face.

Question: What is your PTI saying, and what is DowPow saying?

Answer: For the benefit of new subscribers I should say that these are my two proprietary market indicators. As of October 14, **DowPow** had wiped out all its gains of 1987. That action tells me that the average stock portfolio is now "under water." I include a longer-term study of DowPow in a later section of this Letter.

As for my **PTI** this indicator has now broken decisively below its 89-day moving average and for the first time since 1984 it is in a bearish mode. On a longer-term basis, the PTI has now broken below an important trendline that connects its January 1985 and December 1986 lows. This is a trendline that has been intact for almost three years. The fact that the PTI has broken is a bearish indication. Finally, a new declining trendline can now be drawn down from the August 25 all-time PTI high of 2741. *Thus the PTI is now in a downtrend of indeterminate duration and extent* (see page 2 chart).

Question: What is your personal opinion of the market right now? We know you prefer to go by the actual evidence, but give us your guess.

Answer: I have learned not to be cute or to act "brilliant" or to try to outguess my own work. I am of the opinion that the technical evidence is valid and that we are now in a primary bear market.

The action of the various averages and indicators during 1987 has been clear enough for those who were willing to believe what they were seeing. The fact is that an awful lot of technical damage has been done to this market. I must say that I became particularly suspicious in the face of the almost mystical (and very widespread) belief that the Dow must rally above 3,000. ("I just know it's going there, it's only a matter of time.")

In my opinion, there is no method on earth (never has been and never will be) that can predict the extent or the duration of a primary rise (or a primary decline). But the public and most professionals seemed absolutely obsessed with the thesis that the Dow had to rise above 3,000, maybe even into the mid-3000s, before this bull market could breathe its last. For that matter, I know that many analysts still hold to this belief.

The "Dow above 3,000" obsession may have done more damage to more portfolios than any other single concept or vehicle. Each bull market seems to produce its own brand of insanity, and it could be that "the Dow over 3,000" will go down in history as the ultimate insanity of this bull market.

Question: How much credence do you give to so-called contrary opinion at this point?

Answer: Humphrey Neil (he is the man who developed the whole concept of contrary opinion) was a friend of mine. Humphrey always said that the danger in contrary opinion was that people would try to force the concept. In their obsession to apply contrary opinion, people might latch on to something that was not a consensus opinion -- in which case they would see the whole contrary opinion theory blow up in their faces.

Personally, if I had to pick a widely-held opinion, I would say that it has been the idea that this bull market simply couldn't be over. Frankly, in forty years of watching markets, I have never seen a theme so firmly implanted in both the public's and the professionals' minds. In proof I include below a clip from Dan Dorfman's widely-read column (Oct. 9) in USA Today.

SAN FRANCISCO — Don't panic! The big run in the schizophrenic stock market is far from over.

That's pretty much what one top money manager after another told me at the annual investment conference of Montgomery Securities, one of the West Coast's leading brokerage firms. The five-day event, which drew almost 750 institutional bigwigs representing about $700 billion in assets, ended Thursday.

Tuesday's record one-day drop in the Dow of over 91 points, followed by Wednesday's jump in the prime rate, disturbed many money managers. But there were no signs of any massive bailout. Though nervous and somewhat concerned, the money managers remain essentially bullish.

The overriding view: Though jittery investors might drive the Dow down another 100 to 150 points, the positives clearly dictate higher prices.

Question: Russell, I subscribe to another service that runs a proprietary index. Their index goes back weekly to 1930, and this index has never been wrong. This index states unequivocally that we are still in a bull market. What do you say to that?

Answer: I've made a lifetime study of the stock market, and I've been around for quite a while. Here's one observation which, by the way, I've made before. Watch the advisor who has been on a winning streak (i.e., he's been right) for a long period of time. He's on his way to being dramatically wrong. Conversely, watch the intelligent advisor who has been wrong for an extended period of time. He's on his way to being very right. Now, I suggest you apply the same concept to any "perfect" indicator.

By the way, to my knowledge there's only one device that tends to be correct in calling the primary trend of the market. By the same token there's only one device that has withstood the test of 85 years of actual service. I'm talking, of course, about the Dow Theory.

I should mention that the strengths of the Dow Theory are (1) the Theory does NOT claim infallibility, (2) the Theory requires interpretation and intuition, which frankly makes it more of an art than a science, and (3) the Theory is understood by very few people -- which, by the way, is a huge plus. In my lifetime, I believe I have met less than a dozen people who I would term fully conversant with Dow Theory -- fully conversant in that they have carefully studied the works of Dow, Hamilton, Rhea, and Schaefer and that they have operated through two or more full bull and bear cycles.

Question: Russell, what do you make of the fact that the Japanese Nikkei stock average rose to a record high above 26,600 last week, even while the Dow was collapsing?

Answer: I have always held that primary movements are international in scope. Whether this will hold true in the new globalized markets of 1987 I don't know, but I would think that it will hold true.

With US stocks down sharply and US bonds offering juicy yields of 10% or better, the strain (simply on a yield comparison) becomes greater and greater on the Japanese market (where government bond yields are 6% and yields on common stocks are literally non-existent).

Therefore, if the Japanese stock market were to crash, it would not come as a shock to me. From all that I see, the Asiatic markets are the most extended in the world (and this in the face of the fact that their prime selling area, the US, is in the throes of a bear market).

Question: What other comments do you want to make at this stage of the game?

Answer: Here's one -- I keep thinking of Paul Volcker. His exit from the Fed may go down in Wall Street history as one of the great examples of propitious timing! Also, Volcker came out last week with the opinion that maybe we should have a Constitutional amendment which mandates a balanced budget. It's amazing how forthright people can become when they get out of Washington.

INVESTMENT POSITION: In most advisory situations, the advisor is happier than a lark when he proves to be correct. The bearish stock market advisor, if he has any brains or conscience, is not likely to be a member of the happy group. So I'm sorry to have to say it, but bruin is now the master of the box.

I've written this before, but I'll repeat it -- "**The winner in a bear market is the person who loses the least.**" In other words, almost everyone loses during a primary bear market. They lose via stocks, bonds, their jobs, their businesses, their net worths, and their senses of equanimity. True, there are some few individuals who profit during a bear market and some few of these seek to gloat over the misery of their fellow men. These are the sick ones, the avengers, the "I told you so's," and I want no part of them. A bear market is a tragedy, and as far as I'm concerned there is no other way of looking at it.

My position is and has been to be out of stocks and as liquid as possible. I'm out because stocks during June, July, and August

reached ridiculous heights amid equally ridiculous statements of faith from so-called advisors and experts. As of October 15, of course, there was another reason to be out. The Dow Theory signaled a primary bear market. This was confirmed by my PTI, which fell decisively below its moving-average line, and by DowPow, which smashed far below its May low.

DOWPOW: As readers know, DowPow is my new index of the Dow adjusted for the action of the daily advances and declines. What DowPow does is provide us with *a picture of the power of upside market action compared with the power of the downside or corrective action.*

My computer-expert friend, John Carder, was kind enough to offer suggestions for a few changes in DowPow, changes which will adjust for different price levels and thus render the index more accurate (this has necessitated changing the numbers that were seen on the DowPow charts in previous Letters). John also ran off (via his big computer bank) this daily chart of DowPow going back to 1981. I believe this chart provides us with a valuable and different picture of the bull market.

(1) Note that the most explosive single advance (A on the chart) in the bull market came during the mid-1982 to early-1983 period. This period was obviously characterized by power in both the Dow and the majority of stocks as measured by the A-D ratio.

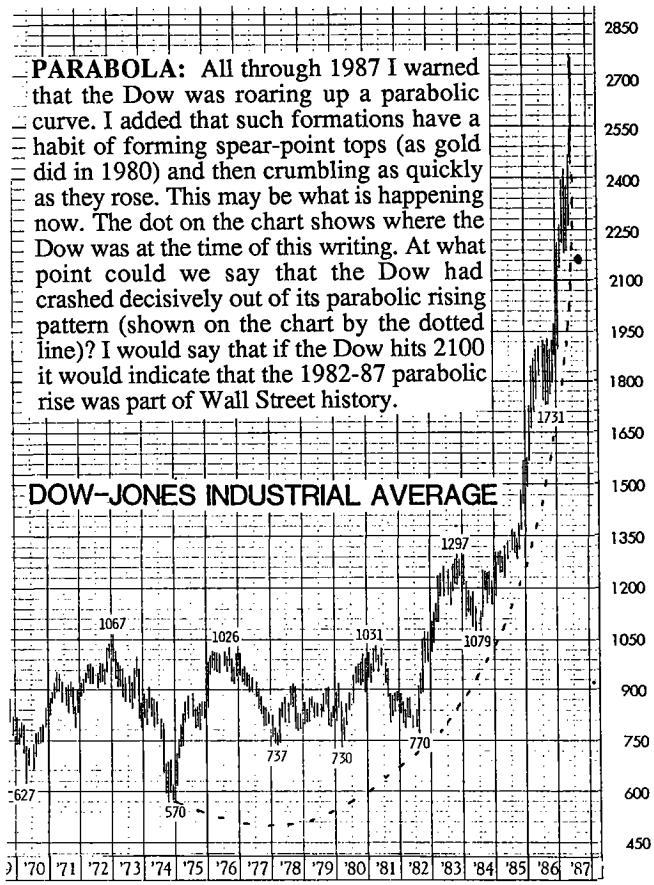
(2) A second less powerful but much longer (in duration) advance (B on chart) occurred during the period of mid-1984 to early-1986.

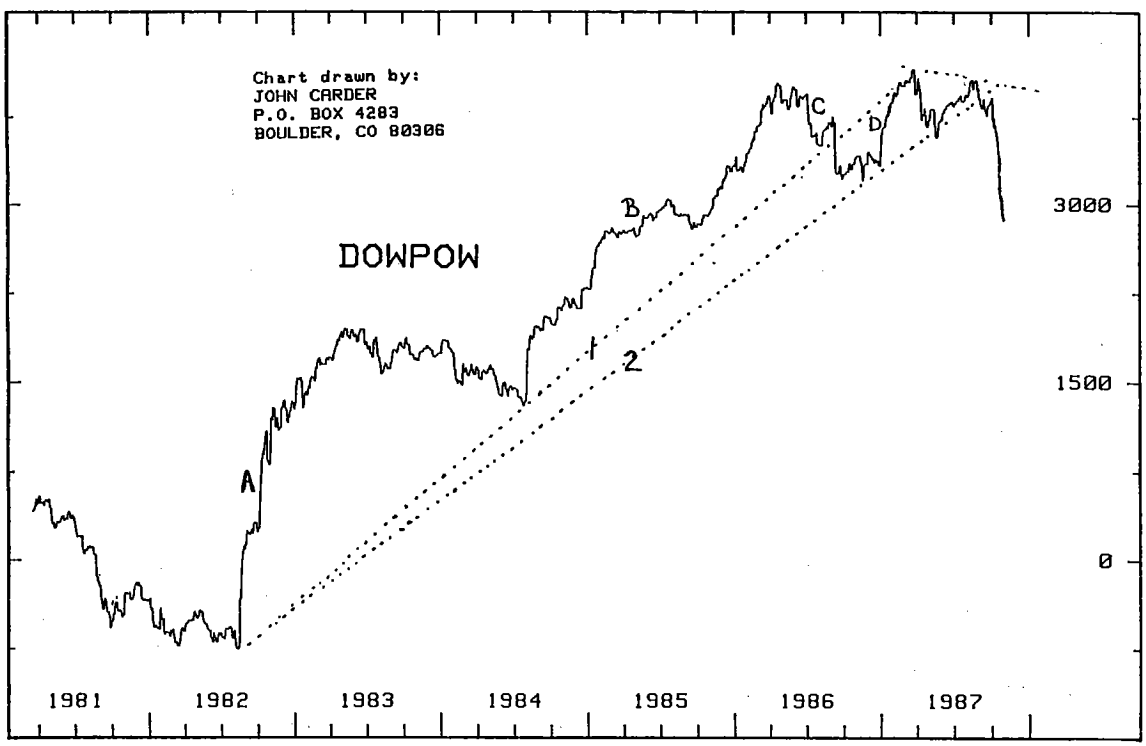
(3) A severe drop in DowPow beginning in the second quarter of 1986 (C on chart) marked the start of deterioration of strength in the bull market.

(4) The violent rally (D) from the end of 1986 to March of 1987 carried DowPow to a new bull market high. But that high was only slightly above the 1986 high. Following the March 1987 high, DowPow turned ragged. On October 6 DowPow (on a 91-point drop in the Dow) suffered an important break -- below its September low. On October 15 and 16 DowPow broke violently, thereby disastrously wiping out all of its 1986 and 1987 gains.

(5) I have drawn in two rising trendlines. The first (marked 1 on chart) intersects the 1982 and 1984 bottoms. The second rising trendline (2 on chart) intersects the 1982 and 1986 bottoms. Note that BOTH of these trendlines have now been violated.

Conclusion: The long-term DowPow chart suggests that the upside growth rate and momentum of this bull market has been halted, and more recently (in mid-October) reversed to the downside.


PARABOLA: All through 1987 I warned that the Dow was roaring up a parabolic curve. I added that such formations have a habit of forming spear-point tops (as gold did in 1980) and then crumbling as quickly as they rose. This may be what is happening now. The dot on the chart shows where the Dow was at the time of this writing. At what point could we say that the Dow had crashed decisively out of its parabolic rising pattern (shown on the chart by the dotted line)? I would say that if the Dow hits 2100 it would indicate that the 1982-87 parabolic rise was part of Wall Street history.
DOW-JONES INDUSTRIAL AVERAGE
2850
2700
2550
2400
2250
2100
1950
1800
1650
1500
1350
1200
1050
900
750
600
450
1067
1026
1031
1297
1079
1731
737
730
770
627
570
'70 '71 '72 '73 '74 '75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87



NOTES & QUOTES: Strange Stories: George Post spent most of his business life looking for a good substitute for coffee. He finally came up with Postum. But the company which Post founded, General Foods, is now the largest seller of coffee in the world. ... The first oil strike in the US was made by Edwin L. Drake in 1859 in Titusville, Pa. Drake was looking for a substitute for whale oil to be used in lamps, and his oil discovery was made (unfortunately) decades before the arrival of the automobile. Drake died a pauper, despite his great discovery. ... Robert Chesebrough started the Chesebrough company (later Chesebrough-Ponds) in 1876. His great item was the petroleum product, Vaseline. Chesebrough died at the age of 96 in 1933. Asked in his 90s for the secret to his longevity, Chesebrough stated that he ate a teaspoon (that's right, ate) of Vaseline every day. Go argue with success. ... Ray Kroc founded the huge McDonalds Corp. He bought his first hamburger stands from McDonalds Bros. with a million dollar loan -- from (of all places) the Princeton endowment fund (for 10 years every time Ray sold a hamburger, Princeton got a percentage).

* *

Robin Leach, developer and MC of the "Lifestyles of the Rich and Famous" TV program -- is he just a buffoon? If you think so, forget it. Leach has been learning from the rich and famous, and he put it all together when he spoke in San Diego last week to a shocked meeting of the California Assoc. of Realtors. Here's a bit of what Leach said:

Leach said he came to the United States from Britain in 1961 because he was tired of living in a country that served as the world's door mat. Now he sees the same thing happening in the United States with little being done to prevent it.

"This is the story of a new Japanese invasion," Leach said. "Is it possible that American real estate will no longer belong to Americans."

Leach prompted the audience of California realtors to envision a day when mortgage interest rates are controlled in Tokyo by a handful of rich individuals and, suddenly, what started as an address of amusing anecdotes become quite serious.

He read a selective list of statistics indicating 39 percent of Houston, 60 percent of the office space in Los Angeles, three of the 11 major Las Vegas casinos and 70 percent of all Hawaiian hotels are already owned by Japanese investors.

"Is this the height of their big buck buying? No, this is just the beginning."

Japanese companies now own the three largest brokerage firms, $60 billion worth of U.S. Treasury bills and 18 of the world's 25 largest banks, Leach added.

"In 1991, Taiwan will be allowed to invest its millions around the world," Leach said. "For more than 30 years the United States has poured billions of dollars into that country and not one cent has been returned.

"What's going to happen when the Taiwanese beat Japan at its own game?"

Leach also pondered Japanese and Kuwaiti roles in the Persian Gulf conflict and questioned those country's lack of effort in controlling the region's free shipping lanes.

He said those counties have much more to lose than the United States and they have the money to spend to protect their interests but still cringe behind the protection of the world's largest debtor nation without spending a cent for the service.

"In less than four years, Japan will have the strongest international economy," Leach said. "One block in downtown Tokyo is worth more than an average American city."

Leach closed the annual convention's general session with two questions; "Can't we do something before it's too late and can't we stop selling the store?"

Russell comment: What we're doing is buying TV sets and cameras and cars from Japan and in turn the Japanese are taking the cash and buying US manufacturing and real estate assets. And the profits from all these Japanese purchases -- they'll be shipped back to Japan. The Japanese know the value of compounding, and they think in terms of the long range. It's the "selling of America" -- all in a vain attempt to keep up our standard of living (while we fail to produce in the world markets).

* *

Here are the latest odds for the US presidential elections -- straight from the London bookies. Bush is an even bet to win. Odds are 2 to 1 against Dole. As for the Dems, the leader is Gephardt at 7 to 1, Dukakis is 8 to 1, Kemp is 20 to 1, Gore and Babbit are 40 to 1, Jackson is 50 to 1.

* *

Quote of the Week: From Pat Schroeder, former Presidential candidate: "Let's look on the bright side. I did not lie, blow a fuse, curse the press, fire my campaign manager, quote Yeats, hide behind my family, forget to thank my troops, or drag out my dog."

* *

Financial Quote of the Week: from "Grant's Interest Rate Observer," 233 B'way, NYC 10279 -- written in view of the near 10% yields on selected Treasury bonds. "A century ago 10% was the maximum interest rate allowed by law in the God-fearing states of Arkansas, Iowa, Michigan, Minnesota, Mississippi, Missouri, Nebraska and Wisconsin. The Union side of the Civil War was financed at 6%, World War II was financed at 2.5% and the 4 1/4s of 1992 were the bellwether Treasury issue of the early days of Vietnam. It is useful to remember that 10% doesn't just walk in the door every day. Money invested at 10% doubles in eight years, whereas money invested at 4%, the Eisenhower epiphany yield, doubles in 18 years. ... It is easy, in the current demoralized market, to hate bonds, but 10% is not to be despised."

* *

Movie production is booming, and the fight is on for space on the screen. If a new film isn't hot, it's gone in a week. In September, 61 new films were released against 38 in September of '86. ... As for magazines, "upscale" is the new buzz-word, and everyone seems to want to get into the new mag scene. Some of the new super-glossies are LA Style, Traveler, Scene, Taxi, Tiffany, Avenue, New York Woman, Elle, European Travel & Life, M, Scene, Vanity Fair, Millionaire.

* *

The Pennzoil/Texaco struggle goes on and on, running up legal bills that are running into the $tens of million on both sides. The whole affair to my mind is a testament to the unbelievable stubborness of the two CEOs. A sane approach would be to have submitted the case to an arbitrator and be done with it. Anyway you look at it, that would have been cheaper than the mess that is now continuing (Texaco, as you know, is in Chapter 11 bankruptcy, and the latest arguments are taking place in bankruptcy court).

* *

The Japanese are now going full-blast in pursuit of the US luxury car market, home of the BMW, the Mercedes, Jaguar, and the $30,000 range car. States C. Cedergren, senior analyst for the automobile research firm of J.D. Powers & Assoc., "The move into upscale cars by the Japanese is more of a threat to Detroit than the competition from Japan in the low end 10 years ago." Reason: It's the high end of the market where profits are fattest for GM, Ford and Chrysler. The high end is also where the most growth over the next 10 years is expected.

* *

Oh gad, the earthquake! Let's face it, when California is in trouble the East loves it. The Oct. 1 (6.1 Richter scale) earthquake made NY Times headlines along with front page photos of the damage. Here's a list of all the recorded Cal quakes with Richter rating. Note that sunny San Diego has never made the list.

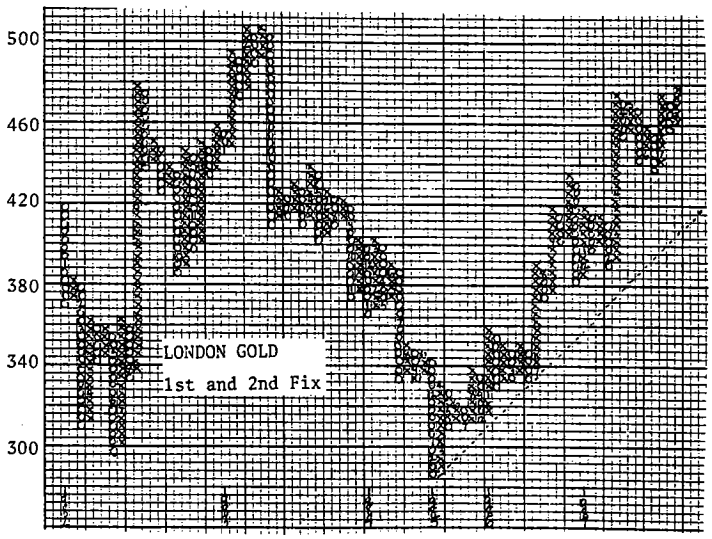
1906 — San Francisco, 8.3.
1952 — Tehachapi-Bakersfield, 7.8.
1927 — Offshore San Luis Obispo, 7.7.
1923 — North Coast, 7.2.
1980 — Eureka, 7.0.
1940 — Imperial Valley, 6.7.
1911 — Coyote, 6.6.
1980 — Mammoth Lakes, four quakes, 6.0 to 6.6.
1983 — Coalinga, 6.5.
1979 — Imperial Valley, 6.4.
1968 — Anza-Borrego Mountains, 6.4.
1971 — San Fernando, 6.4.
1933 — Long Beach, 6.3.
1925 — Santa Barbara, 6.3.
1984 — Morgan Hill, 6.2.
1986 — Palm Springs, 6.0.

* *

"Let the Good Times Roll": Porsche's 959 will do zero to 60 mph in an incredible 3.6 seconds. The car costs $227,000 in West Germany and only 200 cars were made. But don't try to buy one, Porsche **sold 'em out** and won't make any more.

GOLD: Who'd have believed it? The world in turmoil, the NFL guys losing their goofed-up strike, the Iranians blowing up US re-flagged ships, Russia paying off its UN debts, Gorbachev talking about a non-nuclear world, real estate prices in Tokyo rising 93% in the past year, diamond prices surging, the NYSE coming unglued, Reagan threatening to veto something, George Bush announcing that he is going to be his own man, and gold, well gold wasn't doing a heck of a lot -- until now.

Remember I've said that gold has a habit of hitting a low sometime in the fourth quarter of every year -- and then moving up, usually into the first quarter. That could be what we're seeing now.



Let's turn to this 4x12 point & figure chart of gold. Each box on the chart equals 4 points, and only rallies and declines of 12 points or more are shown. The chart concentrates five years of gold action going back to 1982.

The P&F chart tells us that despite the relative inactivity of gold during most of 1987, the yellow metal is still in a clear bull trend. The bullish trendline (dotted line) starts at the 1985 low and *all the gold action since then has occurred above that bullish trendline.*

There are two upside targets for gold at this point. The first is the 480 box. A London fix at 480 would mean that gold had broken out above a "triple-top" formation, and that would be very bullish. A 480 spot price would also mean that gold was in line to attack the 1983 high at 508. If 508 is bettered, gold is "on the way," and 550 level would be the next logical target.

What to do about it? For new subscribers, I should tell you that my advice since early 1985 has been to enter a steady program of buying gold coins each month, regardless of price fluctuations. Buy the bullion coins such as Krugerrands or Kronas or Maple leafs and put 'em away in your lockbox. Those of us who have stuck with this program are not only well ahead, we have probably developed good biceps muscles (I know I have) because those lockboxes are getting heavy. The only variation I have advocated in this monthly buy program is to suggest that you mix it up by buying some platinum coins as well. The coin I like is the Noble (minted on the Isle of Man), a pure one-ounce platinum piece which can be ordered from any coin dealer.

As for the gold shares, most of them are in the very high-multiple area now, and here I have suggested that the best way of entering the share picture is via one of the gold funds such as Lexington Goldfund (800 526 0057) or United Service Gold (800 824 4653) or Vanguard SpecialGold (800 662 2739). So that's it for gold. There isn't much more that I can say. It's a gold bull market, and, by the way, the gold-to-common-stock ratio has just rocketed to its highest level since early '86 (which is bullish for the yellow metal).

LATE NOTES: Last week saw "telephone madness" around here. On October 15 and 16, I must have been called by every newspaper and wire service in the country from Reuters to Barron's to USA Today. In between, a number of subscribers called to ask "Is it really a bear market?" Frankly, I was exhausted, so my answers were, "Yes, it's a bear market," and "Yes, the correct position is to be on the sidelines," and "If you haven't sold I'd start doing it," and "No, no one on this green planet can tell you how far the bear market will carry on this leg," and "Yeah, I know all the experts are saying this is 'just a long-needed correction'," and "I'm sorry, but I believe all the experts are whistling in the dark." And so it went all day long.

Why didn't I send out a "special" as I did in December 1974 when I announced the start of the great bull market? The answer is that I had been unhappy with this market for months, I had suggested repeatedly that this could be a bear market, I had written about the flagrant overvaluation in stocks until I was blue in the face, and I had given the points on the Averages which would signal a bear market and I had announced that I personally had sold out. When the Transports finally smashed through 1005.80, my subscribers had to know that the Dow Theory was screaming "bear market." I honestly don't know what else I could have done.

The Dow Theory makes no claim to infallibility. But I felt that this bear signal would be absolutely valid. Certainly no bear signal in history ever came out of a situation where stocks were more overvalued, where the market was more overextended, and where there was more stubborn disbelief. Read the comments in the newspapers, in the magazines, listen to the "experts" on TV. Even in Barron's, the historic home of the Dow Theory, where I announced a bear market (Oct. 19, page 49), there is another article in which two gurus state that they believe this is just a severe correction. Bear markets thrive on disbelief. This bear market is no exception.

I note that the newspaper and TV commentators and the stock market gurus are searching wildly for "a reason" for the crash on Wall Street. "Who's the culprit? Is it interest rates, is it the deficits, is it the program selling, is it slow retail sales?" People don't understand (or don't want to) that this is a turn in the tide. This is the stock market saying, "THE BEST HAS BEEN SEEN." This is the stock market saying that the great primary tidal force has turned down, and that from here on, despite violent rallies, despite encouraging Presidential speeches, despite Congressional promises, despite international agreements, the trend is down (and news, unfortunately, can be expected to go WITH the trend).

The bear market will be worldwide, from Japan to Singapore, from Brazil to Britain. Already the Japanese market is wobbly. I would expect a lot more than Asiatic wobbles before the bear breathes its last.

A study of stock market history will show that crashes (and we certainly experienced one) are rare, very rare. *But the action following a crash is the surest of all price actions.* After a crash there is always an almost automatic recovery which will recoup roughly 50% of the losses sustained during the crash. The recovery will invariably rekindle hopes for a "resumption of the bull market." We will see this exact phenomenon -- probably before 1987 is out. The rally will be violent, and clever traders will make money in it. Investors who are stuck with stocks should sell into the rally. The rally, let me assure you, will be a big one, but it will also be a false one.

The rally will NOT signal the resumption of the bull market. Those who shout "the bull market is back" will be wrong. I am issuing that warning now so that my subscribers will be ready for it.

This bull market has lasted 13 years, from 1974 until 1987. It will not be corrected by a two- or three-month bear market. I'm sorry to have to say that, but I want my subscribers to survive this thing, and in order to survive we have to deal with, and operate on, reality.

NEXT MAILING: Nov. 4